

M e m o r a n d u m

To: Panel Members Date: August 27, 2004

From: Diana Torres, Manager Analyst: C. Robinson

Subject: ONE-STEP AGREEMENT FOR **ELGAR ELECTRONICS CORPORATION**

CONTRACTOR:

- Training Project Profile: Retraining: Companies W/Out-Of-State Competition
- Legislative Priorities: Stimulating Exports/Imports
Promotion of California's Manufacturing Workforce
- Type of Industry: Manufacturing
- Repeat Contractor: Yes
- Contractor's Full-Time Employees
 - *Worldwide:* 303
 - *In California:* 303
- ETP Trainees Represented by Union: No
- Name and Local Number of Union Representing ETP Trainees: N/A

CONTRACT:

- Program Costs: \$324,142
- Substantial Contribution: \$0
- Total ETP Funding: \$324,142
- Total In-kind Contribution: \$394,450
 - *Trainee Wages Paid During Training:* \$321,950
 - *Other Contributions:* \$72,500
- Reimbursement Method: Fixed-Fee
- County(ies) Served: San Diego

INTRODUCTION:

Founded in 1965, Elgar Electronics Corporation (Elgar) develops and manufactures programmable power sources and related power products sold under the Elgar and Sorensen brands. The Company's products are used by the aerospace, medical, telecom, semiconductor, and defense industries. Elgar's products include AC power sources, programmable DC power systems and loads, solar array simulators, and integrated rack power subsystem services for use in the Automatic Test Equipment market. The Company employs 303 full time employees in its San Diego facility, the site of the proposed ETP-funded training.

The Company qualifies for standard ETP funding as a manufacturer facing out-of-state competition, under Title 22, California Code of Regulations, Section 4416(b). Elgar proposes to retrain 274 of its frontline workers to implement the latest technology in the power electronic industry to meet its customer's demands for high quality products and service.

The proposed training plan represents Elgar's third request for ETP funding, the second within the last five years. Company representatives report that, although Elgar has continued to maintain a significant market share during the downturn of international business subsequent to 2001, its market position is being challenged by companies that offer more competitive market strategies to lure new business. Its representatives also state that Elgar has only been developing sporadic new product offerings and its marketing and sales strategies have been focused on maintaining its market rather than expanding its product lines.

MEETING ETP GOALS AND OBJECTIVES:

Elgar proposes training that will further the following ETP goals and objectives:

- 1) Elgar intends to expand its worldwide market position in the power electronic industry. Funding Elgar will stimulate exports manufactured in California in an industry that faces increasing competition from overseas. Therefore, this project meets ETP's legislative mandates to support the State's economic growth by stimulating exports in industries threatened by out-of-state competition.
- 2) Because Elgar is a manufacturer of programmable power sources, the proposed training will target frontline workers in technological occupations. This proposal also promotes the retention of the California's manufacturing workforce, thereby meeting ETP's legislative mandates to promote retention of manufacturing jobs within the state and invest in developing the skills of frontline workers.
- 3) In order to ensure productivity gains, Elgar recently invested approximately \$350,000 in new equipment and technology to manufacture more cost effective and reliable engineered products. In addition, Elgar will pay the wages and benefits of the retrainees who attend class/lab training. Therefore, the proposed project meets the Panel's priority to encourage a company's monetary investment in training that promotes productivity and improved quality.

TRAINING PLAN TABLE:

GrpTrainee Type	Types Of Training	No. Retain	No. Class/Lab Videocnf. Hrs.	No. CBT Hrs.	Average Cost Per Trainee	Hourly Wage After 90 Days
Job Number 1 Retrainee	MENU: Business Skills Computer Skills Continuous Improvement Skills Management Skills Manufacturing Skills	274	24 - 200	N/A	\$1,183	*\$11.61 - \$53.30
					<u>Prevalent Hourly Wage</u> \$11.75	
					<u>Average Cost Per Trainee</u> \$1, 183	
<u>Health Benefits Used To Meet ETP Minimum Wage:</u> *Health Benefits of at least \$ 1.76 per hour will be applied to the base wage in order to meet the ETP minimum hourly wage of \$11.61 for San Diego County.					<u>Turnover Rate</u> 11%	<u>% Of Mgrs & Supervisors To Be Trained:</u> 13%
<u>Other Employee Benefits:</u> In addition to health, dental and vision, Elgar offers the following fringe benefits: paid annual vacation; sick leave; 401k; and tuition reimbursement.						

COMMENTS / ISSUES:

Frontline Workers

Of the 274 trainees in the training plan, 238 meet the Panel definition of frontline workers under Title 22 California Code of Regulations, Section 4400(ee). The remaining 36 managers and supervisors constitute 13 percent of the total training population.

Production During Training

The proposed Contractor agrees that during ETP-funded training hours, trainees will not produce products or provide services which will ultimately be sold.

Repeat Contractor

In Elgar's most recent Agreement (05/00 – 05/02), the training addressed the Company's need to convert from a singular through hole production process (where components are soldered into holes on a circuit board) to surface mount technology (where parts are mounted directly onto the board). It included manufacturing skills relating to surface mount technology and demand flow technology, leadership skills, advanced teamwork skills, operational strategies, advanced sales and customer service skills, software training in Microsoft Office 2000, and some engineering topics. While most of Elgar's employees have received training in these topics in the past, the proposed curriculum is different in that it represents training needed as a result in changes within the Company made subsequent to its last Agreement. These changes occurred subsequent to Elgar's incorporation of all circuit board manufacturing into its San Diego facility (previously performed in Mexico), investment in new equipment, movement by the Company toward demand flow technology to produce customized products for its customers, and Elgar's need to change its current manual financial, sales and other internal systems to automated processes. None of the proposed training has occurred in the past.

PROPOSED ACTION:

Staff recommends that the Panel approve this Agreement if funding is available and the project meets the Panel priorities.

NARRATIVE:

In response to Elgar's gaining competition for its market share, a major management change occurred in 2002 which resulted in the Elgar's current commitment to develop its business by taking an aggressive leadership position in its existing market segments. Company officials state that its new direction requires Elgar to make a major cultural change in its infrastructure of systems and procedures. The Company's goals include expanding into new market opportunities and to drive new product development growth through implementation of an efficient business model. Elgar's plan to reach its goal of market expansion is to develop an innovative marketing effort that uses different methods than those it currently uses and those being used by its industry competitors. The Company's strategy to expand its line includes offering its customers a new product each quarter that would be released using a formal product development process and the latest technologies available in the power electronics industry.

NARRATIVE: (continued)

As a result of the aforementioned goals, the Company has invested in state of the art engineering tools to facilitate Company systems growth, technology and timely release of its new products. The proposed ETP training in business skills, computer skills, continuous improvement, management skills, and manufacturing skills builds from its previous ETP training in a Company-wide effort to provide Elgar's employees with tools to assist the Company in its goal to increase its market share and double the Company's sales.

Business Skills:

The proposed curriculum in Business Skills in customer service, sales, marketing, finance, and project management training is expected to assist Company employees to attract new business and manage Elgar's customers more efficiently. Currently, the Company operates on an inefficient manual data collection system that has resulted in incomplete and/or outdated customer information. Marketing and sales techniques used by Elgar are also out-of-date compared to those used by the Company's competitors. The proposed training would include sales, customer service, finance, and manager/supervisor staff. It will involve streamlining Elgar's business related processes using the latest strategic sales, marketing, and customer service techniques to improve Company related operations. According to the Company, the training will also enable employees to undertake complex projects with a higher degree of effectiveness.

Computer Skills:

Elgar is investing in software information systems to support the Company's planned growth and changes within its system's infrastructure. All of Elgar employees will receive training in software applications to utilize the Company's new e-mail and automated time/attendance software systems. This training is expected to improve Elgar's ability to electronically communicate both internally and externally in conjunction with improving the Company's ability to record project costs. Computer software systems will be implemented to focus on tying together Company sales and marketing activities with engineering/operations to improve production efficiency. Some administrative staff will also receive advanced office software training to improve their overall computer skills proficiency.

Continuous Improvement:

The proposed training plan includes several topics under Continuous Improvement Skills that will focus on lean manufacturing, workplace organization, and standardization processes to lower costs and increase productivity. The Company states that problem-solving tools will allow all Elgar employees included in the training plan the opportunity to develop and manufacture quality products, expand their knowledge and skills in problem solving techniques, and to improve the Company's ability to provide higher quality products to its customers.

Management Skills:

Management skills training for managers/supervisors will concentrate on providing the skills needed to assist them in understanding the dynamics of changes within Elgar as a result of the new management team's directives. The training is designed to give manager/supervisors

NARRATIVE: (continued)

techniques to empower Elgar employees to reach increased ownership, Company commitment and job accountability.

Manufacturing Skills:

The proposed Agreement includes training for engineers in the latest digital power electronics and state-of-the-art engineering productivity tools and systems. This training is designed to provide Elgar's engineering department with new standards and design techniques. According to the Contractor, the use of digital controls will allow for implementation of new and more sophisticated control techniques that will result in superior performance and product integrity. Production staff will receive training associated with advanced surface mount technology and Material Handling to build upon previous ETP training that included introduction to surface mount Technology standards. According to Company representatives, Elgar's planned new designs are based on surface mount technology. Therefore, the proposed training will allow production staff to acquire advanced and more complex skills in order to increase quality and productivity in a "Lean Manufacturing" environment.

Supplemental Nature of Training

State law requires that ETP funds be used to supplement, rather than displace, funds available through existing programs conducted by employers and government-funded programs.

Elgar's first ETP Agreement (12/94 to 12/96) initiated its transition to a high performance workplace while meeting customer demands for products that could be delivered faster, better and cheaper than the competition. The training focused solely on skills necessary for a high performance workplace: teambuilding, communication skills, problem solving, ISO 9000, new product knowledge, sales support skills, production techniques, leadership skills, customer service, SPC, and process improvement. As stated previously in the Comments Section of this memorandum, the second ETP Agreement (05/00 – 05/02) assisted Elgar in meeting the challenges of competition from overseas and expanding its efforts to transition to a high performance workplace.

The Contractor states that the third Agreement, builds upon the fundamental competencies achieved during the previous Agreements and the included training topics are completely different from what was delivered in those projects. The proposed training represents the Company's new approach to conducting business by expanding its product line through innovative new technologies, creating customer driven products, and empowering its employees in a results-driven environment. After the Company's first two projects, Elgar continues to provide training (at its own expense) in continuous process improvement, teamwork, basic management skills and office automation. In addition, Company-funded training includes job specific training, electro static control, safety training, and new employee orientation. The proposed training supplements the training normally provided at an annual cost of approximately \$200,000 to Elgar's employees.

SUBCONTRACTORS:

Aware Consulting (Santa Ana, California) – \$5,400 for Business Skills
Bruce Carsten Associates, Inc. (Sacramento, California) - \$9,000 for Manufacturing Skills
Fred Harris & Associates (Lemon Grove, California) - \$18,000 for Manufacturing Skills
DRM Associates (Palos Verdes, California) - \$10,000 for Manufacturing Skills
Quality and Productivity Resources (Poway, California) - \$31,500 for Continuous Improvement
Blue Star Learning (San Diego, California) - \$3,800 for Computer Skills
Dharma Consulting (Leucadia, California) - \$70,840 for Management/Supervisor Skills
Ceridian (Carlsbad, California) - \$2,700 for Computer Skills

THIRD PARTY SERVICES:

Julia Jenkins assisted with the application and helped prepare the training plan, curriculum, and the retraining certification. The amount reimbursed for these services was based upon a flat fee of \$4,322.50.

PRIOR PROJECTS:

The following are completed project statistics for ETP Agreements with this Contractor within the last five years:

PRIOR PROJECTS					
Agreement Number	Location (City)	Term	% Earned	Planned In-kind Contribution	Reported In-kind Contribution
ET00-0309	San Diego Santa Clara	05/08/00 – 05/07/02	*61%	**N/A	**N/A

* Elgar states that the poor performance for this Agreement resulted from a closure of one of its subsidiaries, Power Ten, located in Santa Clara, California, due to a downturn in business subsequent to the events of September 11, 2001. As a result, 46 retrainees from this facility did not complete training and the 90-day retention period. In addition, several employees from Elgar were unable to complete their scheduled training in San Diego due to time spent in Santa Clara assisting Power Ten staff during the closure.

Company representatives state that the training in the proposed Agreement was planned and directed by Elgar's new management team. The team has mandated that the training is a priority and anticipates improved performance for the proposed Agreement.

** At the time of approval and implementation of this Agreement, ETP policy did not require an employer contribution. Therefore, employer contribution was not tracked at the time. However, Elgar estimates that its in-kind was at the relative level projected for this proposed Agreement.

ELGAR ELECTRONICS CORPORATION MENU CURRICULUM

Hours
Class/lab

24-200

Business Skills

Customer Decision Process
Proactive Sales
Perfect Tracker Tool For Plan Management
Miller Heiman Sales Management Process
Life Cycle Marketing
Quality Functional Design
Finance Ledger/Cost Accounting/Procurement (ManMan)
Customer Relationship Management/Project Program Management

Continuous Improvement

6 Sigma/5-S Principles
Employee Ownership & Accountability
Lean Manufacturing
Process Mapping

Computer Skills

Ceridian Systems
Project Code Engineering
Advanced Office 2000/E-Mail
Business Intelligence
Quality Information Systems

Manufacturing Skills

Advanced Printed Circuit Board Design
Digital Control in Power Electronics
Advanced Power Electronics
Techniques for Effective Mechanical Design
Mechanical Technology (3D Solid Works & Finite Element Analysis)
Material Handling (KanBan)
Advanced Surface Mount Certification
Real Time Operating Systems (embedded systems)

Management Skills (mangers/supervisors only)

Managing a Changing Environment